

**BAY AREA AIR QUALITY
MANAGEMENT DISTRICT**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S
REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2009**



Gilbert Associates, Inc.
CPAs and Advisors

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
of the Bay Area Air Quality Management District
San Francisco, California**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Bay Area Air Quality Management District, as of June 30, 2009, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the schedules of funding progress, and the budgetary comparison information listed as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Transportation Fund for Clean Air (TFCA) Program – Schedule of Expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. This TFCA Program – Schedule of Expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

Sacramento, California

January 29, 2010

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of fiscal year 2008-09 by \$139,278,529 (net assets). Of this amount, \$22,773,752 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$102,991,828 was restricted to specific uses (restricted assets); and \$13,512,949 was invested in capital assets. Net assets increased by \$12,859,006 from fiscal year 2007-08.

The District's governmental funds reported a fund balance of \$129,460,721. The entire fund balance of the Special Revenue Fund in the amount of \$94,778,487 is reserved for air quality grants and projects. The General Fund balance of \$411,797 represents the unreserved fund balance with the remaining balance of \$34,270,437, reserved for specific uses. Table 1 presents the General Fund detail of fund balances as of June 30, 2009, and June 30, 2008.

Table 1. General Fund Balances as of June 30, 2009, and 2008

Category	General Fund June 30, 2009	General Fund June 30, 2008	Increase/ (Decrease)
Reserved for:			
Revolving Fund	\$ 500	\$ 500	\$ -
Air Quality Grants and Projects	5,346,131	903,105	4,443,026
Post-Employment Benefits	2,867,210	2,724,190	143,020
Encumbrances	11,141,911	9,978,556	1,163,355
Total Reserved	19,355,752	13,606,351	5,749,401
Unreserved, designated for:			
Building and Facilities	1,731,690	1,731,690	-
PERS Super Funding	2,300,000	2,700,000	(400,000)
Radio Replacement	75,000	75,000	-
Production System	-	2,800,000	(2,800,000)
Capital Equipment	130,425	130,425	-
Contingencies	400,000	400,000	-
Self-Funded Worker's Compensation	1,000,000	1,000,000	-
Economic uncertainties	9,277,570	8,755,437	522,133
Total Unreserved, designated	14,914,685	17,592,552	(2,677,867)
Undesignated	411,797	5,837,562	(5,425,765)
Total Fund Balance	\$ 34,682,234	\$ 37,036,465	\$ (2,354,231)

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

B. Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Assets and the Statement of Activities and Changes in Net Assets.

The Statement of Net Assets reports all assets held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed is reported as *Net Assets*. The net assets total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets as of June 30, 2009 is presented on Page 12.

The Statement of Activities reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net assets. The Statement of Activities and Changes in Net Assets is presented on page 13.

All of the District's activities are governmental in nature and no business-type activities are reported in these statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

B. Overview of the Financial Statements, Continued

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bay Area Air Quality Management District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains two governmental funds; the General Fund and the Special Revenue Fund.

Governmental Funds

Governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Both are prepared using the modified accrual basis of accounting.

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unrestricted portion of fund balance represents the amount available to finance future activities. The District's governmental fund balance sheets can be found on page 14.

The Statement of Revenues, Expenditures and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental fund Statements of Revenue, Expenditures and Changes in Fund Balance can be found on page 16.

Since a different basis of accounting is used to prepare these statements, reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The reconciliation of the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets is on page 15. The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets can be found on page 17.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 to 35.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

B. Overview of the Financial Statements, Continued

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the pension plan actuarial information, governmental funds budget comparison schedules and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 36 to 40.

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net assets and changes in net assets of the District's governmental activities. Table 2 below shows a condensed Statement of Net Assets as of June 30, 2009 compared to the fiscal year ended June 30, 2008.

Table 2. Statement of Net Assets as of June 30, 2009 and June 30, 2008

Current & Other Assets	\$ 144,307,110	\$ 143,967,706	\$ 339,404
Noncurrent Assets	13,512,949	11,273,003	2,239,946
Total Assets	157,820,059	155,240,709	2,579,350
Noncurrent Liabilities	4,080,277	3,440,599	639,678
Current Liabilities	14,461,253	25,380,587	(10,919,334)
Total Liabilities	18,541,530	28,821,186	(10,279,656)
Net Assets:			
Invested in Capital Assets	13,512,949	11,273,003	2,239,946
Restricted	102,991,828	84,660,705	18,331,123
Unrestricted	22,773,752	30,485,815	(7,712,063)
Total Net Assets	\$ 139,278,529	\$ 126,419,523	\$ 12,859,006

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2009 the District's assets exceeded its liabilities by \$ 139,278,529, an increase of \$12,859,006 over the previous fiscal year. The increase was due primarily to the District changing the methodology by which unearned and deferred revenue was recognized, as well as the corresponding revenue.

Restricted net assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net assets is unrestricted and may be used to meet the District's obligations in carrying out its day-to-day operations.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

C. Government-Wide Financial Analysis, Continued

Table 3 below provides Changes in Net Assets for the fiscal year ending June 30, 2009 compared with the fiscal year ended June 30, 2008.

Table 3. Statement of Changes in Net Assets for Fiscal Years 2008-09 and 2007-08

	Governmental Activities FY 2008-09	Governmental Activities FY 2007-08	Dollar Increase/ (Decrease)	Percentage Increase/ (Decrease)
Revenues:				
ITCA DMV Fees	\$ 24,605,822	\$ 18,999,797	\$ 5,606,025	30%
MSIF DMV Fees	1,547,746	2,003,105	(455,359)	-23%
Carl Moyer	13,707,306	13,796,864	(89,558)	-1%
Lower Emissions School Bus Program	-	1,328,317	(1,328,317)	-100%
Permit Fees	22,056,525	18,427,888	3,628,637	20%
Title V Permit Fees	2,538,461	1,992,820	545,641	27%
State Subvention	1,713,271	1,711,718	1,553	0%
Spare the Air Grant (CMAQ)	924,261	677,953	246,308	36%
Federal Grants (EPA)	2,002,303	1,983,135	19,168	1%
Federal Grants (Homeland Security)	903,796	870,427	33,369	4%
Penalties & Variance Fees	2,544,207	3,084,812	(540,605)	-18%
Hearing Board Fees	17,960	27,354	(9,394)	-34%
AB 2588 Income	612,995	552,445	60,550	11%
Asbestos Fees	1,678,665	1,800,001	(121,336)	-7%
Interest Revenue	832,267	1,336,834	(504,567)	-38%
Other Grants	6,285,739	1,423,601	4,862,138	342%
AB 434 Others	227,704	595,708	(368,004)	-62%
Miscellaneous Revenue	103,431	54,776	48,655	89%
Port of Oakland Truck Program	10,000,002	-	10,000,002	100%
Special Environmental Projects	-	129,680	(129,680)	-100%
County Apportionments	21,666,623	20,878,006	788,617	4%
Total Revenues	113,969,084	91,675,241	22,293,843	24%
Expenses:				
Salaries and Benefits	48,451,985	44,421,764	4,030,221	9%
Services and Supplies	18,835,616	18,857,654	(22,038)	0%
Program Distributions	32,101,522	30,600,831	1,500,691	5%
Total Expenses	99,389,123	93,880,249	5,508,874	6%
Change in Net Assets before Extraordinary Item	14,579,961	(2,205,008)	16,784,969	-761%
Loss on Lehman Brothers Investment	(1,720,955)	-	(1,720,955)	100%
Change in Net Assets	12,859,006	(2,205,008)	15,064,014	-683%
Net Assets Beginning, As Restated	126,419,523	128,624,531	(2,205,008)	-2%
Net Assets, Ending	\$ 139,278,529	\$ 126,419,523	\$ 15,064,014	12%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

C. Government-Wide Financial Analysis, Continued

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net assets changed during the FY 2008-2009. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology, ensure compliance with clean air rules, develop programs to achieve clean air, develop rules to achieve clean air, monitoring air quality, permit review and Special Revenue Fund Activities.

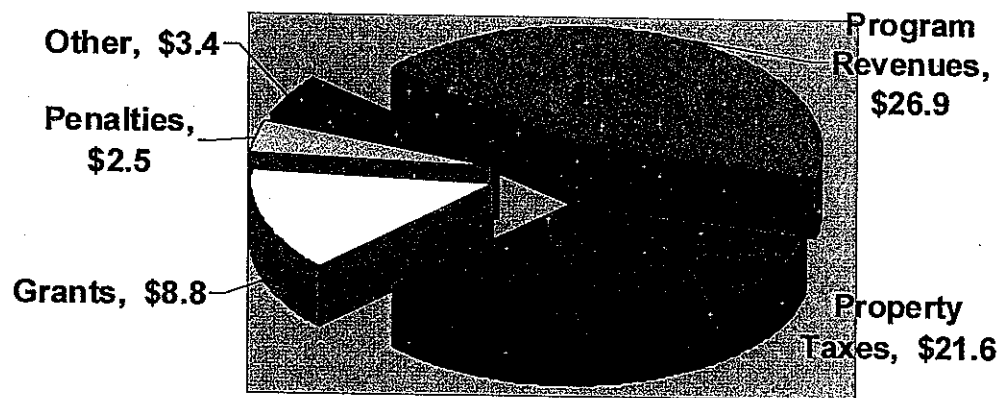
BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2008-09. The General Fund received total revenue of \$63,217,248 in fiscal year 2008-09, an increase of \$8,363,405 over fiscal year 2007-08. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2008-09 (\$26.9 million), followed by Property Tax (\$21.6 million), Grants (\$8.8 million), Penalties (\$2.5 million), and Other revenues (\$3.4 million).

**Figure 1. Fiscal Year 2008-09
General Fund Revenues
(Figures in Millions of Dollars)**



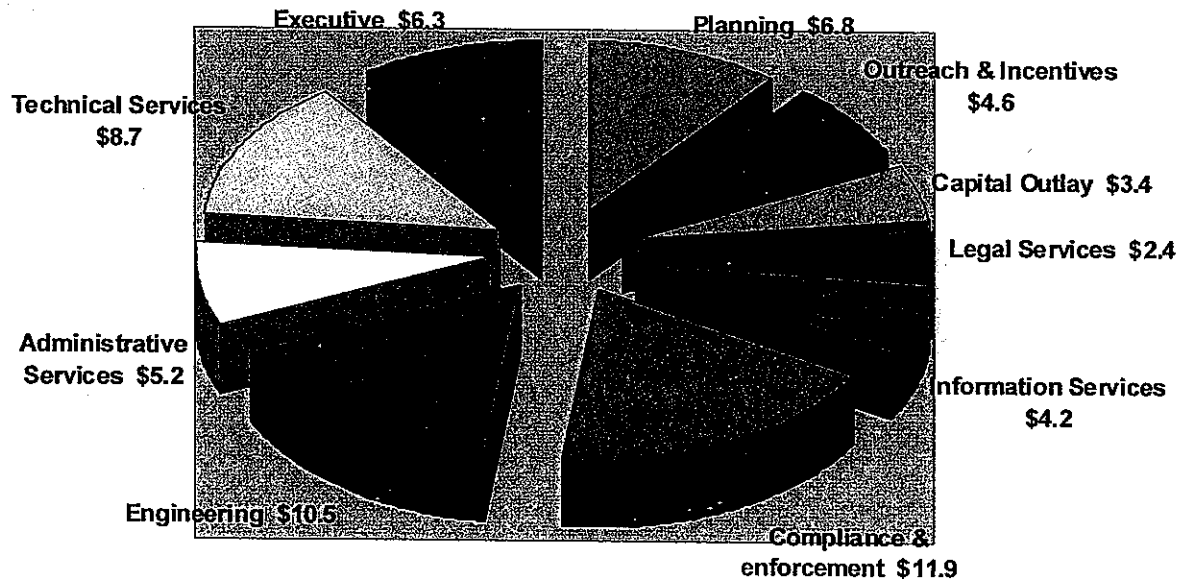
BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2008-09. General Fund expenditures totaled \$64,019,179 which is an increase of \$5,049,887 over fiscal year 2007-08. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$11.9 million), Engineering (\$10.5 million), Administrative Services (\$5.2 million), Information Services (\$4.2), Technical Services (\$8.7 million), Executive (\$6.3 million), Planning (\$6.8 million), Outreach & Incentives (\$4.6 million), and Legal Services (\$2.4 million). The District also incurred \$3.4 million of Capital Outlay expenditures in fiscal year 2008-09. General Fund expenditures exceeded revenue by \$2,522,886 in fiscal year 2008-09.

Figure 2. Fiscal Year 2008-09 General Fund Expenditures (Figures in Millions)



Total General Fund revenue increased by \$8.3 million or 15.1% compared with the prior fiscal year, primarily due to an increase in permit fees of \$4.5 million, and an increase in County Apportionments of \$789 thousand. General Fund Expenditures (excluding extraordinary loss) increased by \$5.0 million or 8.5% compared to the prior year, primarily both from increased expenditures across all programs in accomplishing the District's mission, and prefunding of the District's other post-employment benefits in the amount of \$3.4 million.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

D. General Fund Financial Analysis, Continued

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was \$34.7 million. The unreserved fund balance was \$412 thousand; reservations and designations were \$19.4 million and 14.9 million, respectively. These reserved and designated amounts represent the District's intended use of the financial resources in future periods. One measure of the General Fund's liquidity is the comparison of both unreserved fund and total fund balances to total expenditures. The unreserved fund balance represents .6% of the total General Fund expenditures, while the total fund balance represents 54.2% of the total fund expenditures.

The FY 08-09 adopted budget as compared to the amended budget reflects an increase in appropriations of \$13.6 million. The changes to the budget were the result of Governing Board actions, and carry over of unspent funds from 2006-07.

E. Capital Assets

As of June 30, 2009 the District's investment in capital assets was \$13.5 million net of accumulated depreciation. Capital assets include land, buildings, laboratory equipment, Air monitoring stations, computers, office furniture and District fleet vehicles.

F. Economic Factors and Next Year's Budget

The District receives approximately 35% of its General Fund revenue from property taxes levied in nine Bay Area counties and 42% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by approximately 13.9% in FY 2008-09. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

G. Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffrey M. McKay, Deputy Executive Officer at 939 Ellis Street, San Francisco, CA 94109.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 27,686,126
Restricted cash and cash equivalents	103,781,847
Receivables	10,491,354
Due from other governments	2,190,508
Deposits and other current assets	157,275
Capital assets:	
Non-depreciable	6,704,525
Depreciable, net	6,808,424
Total capital assets	<u>13,512,949</u>
Total assets	<u>157,820,059</u>
LIABILITIES	
Accounts payable	7,231,379
Accrued payroll	1,203,516
Other current liabilities	375,460
Unearned revenue	5,527,830
Long-term liabilities:	
Due within one year	123,068
Due in more than one year	<u>4,080,277</u>
Total liabilities	<u>18,541,530</u>
NET ASSETS	
Invested in capital assets	13,512,949
Restricted for air quality grants and projects	100,124,618
Restricted for post-employment benefits	2,867,210
Unrestricted net assets	<u>22,773,752</u>
Total net assets	<u>\$ 139,278,529</u>

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 27,686,126		\$ 27,686,126
Restricted cash and cash equivalents	2,867,210	\$ 100,914,637	103,781,847
Receivables	3,630,987	6,860,367	10,491,354
Due from other governments	2,190,508		2,190,508
Due from other funds	2,242,119		2,242,119
Deposits and other assets	147,063	10,212	157,275
Total assets	<u>\$ 38,764,013</u>	<u>\$ 107,785,216</u>	<u>\$ 146,549,229</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,994,599	\$ 5,236,780	\$ 7,231,379
Accrued payroll	1,203,516		1,203,516
Due to other funds		2,242,119	2,242,119
Other liabilities	375,460		375,460
Deferred revenue	508,204	5,527,830	6,036,034
Total liabilities	<u>4,081,779</u>	<u>13,006,729</u>	<u>17,088,508</u>
Fund balances:			
Reserved fund balances:			
Revolving fund	500		500
Air quality grants and projects	5,346,131	92,159,480	97,505,611
Post-employment benefits	2,867,210		2,867,210
Encumbrances	11,141,911	2,619,007	13,760,918
Total reserved	<u>19,355,752</u>	<u>94,778,487</u>	<u>114,134,239</u>
Unreserved, designated for:			
Building and facilities	1,731,690		1,731,690
PERS super funding	2,300,000		2,300,000
Radio replacement	75,000		75,000
Capital equipment	130,425		130,425
Contingencies	400,000		400,000
Self-funded workers' compensation	1,000,000		1,000,000
Economic uncertainties	9,277,570		9,277,570
Total unreserved; designated	<u>14,914,685</u>		<u>14,914,685</u>
Unreserved and undesignated	411,797		411,797
Total fund balances	<u>34,682,234</u>	<u>94,778,487</u>	<u>129,460,721</u>
Total liabilities and fund balances	<u>\$ 38,764,013</u>	<u>\$ 107,785,216</u>	<u>\$ 146,549,229</u>

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for Governmental Activities in the Statement of
Net Assets are different from those reported in the Governmental Funds
because of the following:

Total fund balances - total governmental funds	\$ 129,460,721
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	13,512,949
Other long-term assets (receivables) are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	508,204
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(3,782,608)
OPEB obligation	<u>(420,737)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 139,278,529</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
TFCA / MSIF DMV fees		\$ 26,153,568	\$ 26,153,568
Carl Moyer Program		13,707,306	13,707,306
Permit fees	\$ 22,069,066		22,069,066
Title V permit fees	2,538,461		2,538,461
Asbestos fees	1,678,665		1,678,665
Penalties and variance fees	2,544,207		2,544,207
Hearing board fees	17,960		17,960
State subvention	1,713,271		1,713,271
AB 434/923 others		227,704	227,704
AB 2588 income	612,995		612,995
Federal grant - EPA	2,002,303		2,002,303
Federal grant - DHS	903,796		903,796
CMAQ Spare The Air	924,261		924,261
Other grants	5,003,522	675,797	5,679,319
Portable equipment registration program (PERP)	606,420		606,420
Interest	832,267		832,267
County apportionment	21,649,661		21,649,661
Port of Oakland Truck Program		10,000,002	10,000,002
Redevelopment	16,962		16,962
Miscellaneous	103,431		103,431
Total revenues	63,217,248	50,764,377	113,981,625
EXPENDITURES			
General government:			
Executive office	6,361,392		6,361,392
Finance and administration	5,063,754		5,063,754
Information systems	4,316,794		4,316,794
Legal services	2,364,431		2,364,431
Outreach and incentives	4,623,962		4,623,962
Compliance and enforcement	11,898,215		11,898,215
Engineering	10,556,445		10,556,445
Planning and research	6,773,172		6,773,172
Technical services	8,674,707		8,674,707
TFCA Programs:			
Program distribution		32,101,522	32,101,522
Smoking vehicle		322,131	322,131
Intermittent control		262,673	262,673
TFCA administration		1,208,271	1,208,271
Vehicle buy-back		1,554,837	1,554,837
Mobile source incentive		539,423	539,423
California Goods Movement Program:			
Grant administration		722,661	722,661
Port of Oakland Truck Program		139,126	139,126
Capital outlay	3,386,307		3,386,307
Total expenditures	64,019,179	36,850,644	100,869,823
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(801,931)	13,913,733	13,111,802
OTHER FINANCING SOURCES (USES)			
Transfers in	168,655		168,655
Transfers (out)		(168,655)	(168,655)
Total other financing source (uses)	168,655	(168,655)	
EXTRAORDINARY ITEM			
Loss on Lehman Brothers investment	(1,720,955)		(1,720,955)
NET CHANGE IN FUND BALANCES	(2,354,231)	13,745,078	11,390,847
BEGINNING FUND BALANCES, AS RESTATED	37,036,465	81,033,409	118,069,874
ENDING FUND BALANCES	\$ 34,682,234	\$ 94,778,487	\$ 129,460,721

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the Statement of Activities
are different because of the following:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 11,390,847
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Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities the cost of those assets is capitalized and allocated
over their estimated useful lives and reported as depreciation expense.

Capitalized expenditures are added back to fund balance	3,386,307
Depreciation expense is deducted from fund balance	(1,140,927)
Loss on disposal of capital assets is deducted from fund balance	(5,434)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(12,541)
--	----------

The amounts below included in the Statement of Activities do not require the use of
current financial resources and therefore are not reported as revenue or expenditures in
governmental funds (net change):

Compensated absences	(338,509)
OPEB obligation	(420,737)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 12,859,006</u>
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BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. REPORTING ENTITY AND SIGNIFIGANT ACCOUNTING POLICIES

A. Reporting Entity

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923, respectively. TFCA and MSIF funding comes from a \$4 and \$2 surcharge, respectively, on motor vehicles registered within the District. TFCA funding may only be used to fund eligible projects that reduce motor vehicle emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than forty percent of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining sixty percent is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District includes seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, and Santa Clara; and portions of two other counties: Southwestern Solano and Southern Sonoma. The District is governed by a twenty-two member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The District's significant accounting policies are described below.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

B. Basis of Presentation

Government-wide Statements - The Statement of Net Assets and the Statement of Activities display information about the primary government (District). Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational needs of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements - The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

C. Funds Presented

The District's major governmental funds are required to be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of the total. The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - This Fund is used by the District to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Those revenues susceptible to accrual are taxes, intergovernmental revenues, interest, charges for services, fines and penalties, and license and permit revenues.

Imposed non-exchange transaction revenues result from assessments imposed on non-governmental entities, including individuals (other than assessments imposed on exchange transactions) and the revenues are recognized in the period when use of the resources is required or first permitted. Deferred revenue is recognized when resources are received or recognized as receivable before the time requirements are met. District imposed non-exchange transactions are the TFCA / MSIF DMV fees, Permit fees, Title V Permit fees, Asbestos fees, Penalties and Variance fees, and Settlements.

Government-mandated non-exchange transactions result from one level of government providing resources to another level of government and requiring the recipient to use the resources for a specific purpose. Voluntary non-exchange transactions result from agreements entered into voluntarily by the parties thereto. Both types of non-exchange transaction revenues are treated in the same manner. Revenues are recognized when all applicable eligibility requirements are met. Deferred revenue is recognized when the recipient is required to use the resources in the following year, thus resources provided before that period should be recognized as deferred. District transactions of both types include the Carl Moyer program, State Subvention, EPA federal grants, DHS federal grants, CMAQ Spare the Air grants, other grants, Port truck, and various agreements with the nine Counties served by the District.

Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred revenues also arise when the government receives monies before it has a legal claim to them including grant monies received prior to incurring qualifying expenditures. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been offset with deferred revenue.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. Compensated Absences

The District's policies provide compensation to employees for certain absences, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

The District's liability for compensated absences is recorded in the Statement of Net Assets. District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the fiscal year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District.

There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave, but the accumulated sick leave is counted as service credit by the CalPERS pension plan administered by the State of California.

F. Use of Management Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. Receivables

During the course of normal operations, the District carries various receivable balances for taxes, interest and permitting operations. The District considers receivables to be fully collectible; accordingly no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations when that determination is made.

H. Capital Assets

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting general capital assets at \$5,000. Donated capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings, grounds & improvements	15-20 Years
Equipment	5-7 Years

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

I. Net Assets / Fund Balance

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets, restricted, and unrestricted.

Invested in Capital Assets - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents net assets of the District not restricted for any project or other purpose.

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as reserved, unreserved designated, and unreserved undesignated.

Reserved Fund Balance - This category presents those portions of the fund balance that are not available for appropriation or expenditure and/or are legally segregated for a specific future use.

Unreserved Designated - This category presents those portions of the fund balance that represent the District's intended use of current available resources.

Unreserved Undesignated - This category presents those portions of the fund balance that are not designated or restricted for any project or other purpose.

J. Transfers Between Funds

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Interfund transfers for the year ended June 30, 2009 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	\$ 168,655

Transfers between funds represent costs required by the General Fund for grant administration.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

K. Implementation of New Accounting Standard

On July 1, 2008, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

L. Future GASB Implementation

In March of 2009, the GASB issued GASB Statement No. 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definition*, with required implementation for the District during the year ended June 30, 2011. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 provides for classifications such as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

2. CASH AND INVESTMENTS

Cash and Investments

The District pools cash from all sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Cash and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 27,686,126
Restricted cash and cash equivalents	<u>103,781,847</u>
Total cash and cash equivalents	<u>\$ 131,467,973</u>

Cash and cash equivalents as of June 30, 2009 consist of the following:

Cash in bank	\$ 190,100
Cash in revolving fund	500
Cash and investments in San Mateo Pooled Fund Investment Program	128,410,163
Cash and investments with fiscal agent	<u>2,867,210</u>
Total cash and cash equivalents	<u>\$ 131,467,973</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code under the oversight of the Treasury of the County of San Mateo (the Treasury). The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District reports its investment in the County Pool at the fair value amount provided by the County. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the California Government Code Section 53601 or the Treasury investment policy, which was adopted by the District, whichever is more restrictive. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Government Agency / Sponsored			
Enterprise Securities	10 years	100%	40%
U.S. Treasury Obligations	10 years	100%	100%
Asset Backed Securities	5 years	20%	5%
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Collateralized Certificates of Deposit	1 year	30%	5%
Repurchase Agreements	1 year	100%	50%
Reverse Repurchase Agreements	92 days	20%	20%
Corporate Bonds & Medium-Term Notes	5 years	30%	5%
Local Agency Investment Funds (LAIF)	N/A	Up to state limit	None

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2009.

Disclosures Related to Interest Rate Risk and Credit Risk.

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the District's investment policy limit the District's investments in commercial paper and bankers acceptances to the rating of A1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service; and corporate bonds and asset backed securities to the rating of A or higher by both Standard & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S. Treasury obligations.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates.

The District's cash and investments were categorized as follows at June 30, 2009:

	<u>Ratings</u>		<u>Maturities</u>	<u>Fair Value</u>
	<u>Moody's</u>	<u>S&P</u>		
AIG fixed annuity	Not Rated	Not Rated	Current	\$ 2,867,210
Investments in San Mateo				
Pooled Fund Investment Program	Aa1	AA+	Current	128,410,163
Total cash and investments				<u>\$ 131,277,373</u>

3. RECEIVABLES

At June 30, 2009 the District had the following accounts receivable:

General Fund:

Permit and other fees	\$ 2,268,349	
County apportionments	854,937	
Interest	157,688	
Other	350,013	
Total General Fund		\$ 3,630,987

Special Revenue Fund:

TFCA DMV fees	4,192,455	
MSIF DMV fees	2,096,228	
Interest	571,684	
Total Special Revenue Fund		6,860,367
Total Accounts Receivable		<u>\$ 10,491,354</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2009, the General Fund was owed \$2,242,119 by the Special Revenue Fund.

5. CAPITAL ASSETS

The District's capital assets comprise of the following at June 30, 2009:

	Balance at 7/1/2008	Additions	Deletions	Transfers	Balance at 6/30/2009
Non-depreciable assets:					
Land	\$ 214,608				\$ 214,608
Construction in progress	4,978,225	\$ 2,141,584		\$ (629,892)	6,489,917
Total non-depreciable assets	5,192,833	2,141,584		(629,892)	6,704,525
Depreciable assets:					
Building and grounds	8,045,401	236,877		629,892	8,912,170
Leasehold improvements	2,847,646				2,847,646
Computers and network equipment	2,830,823	56,680	\$ (12,500)		2,875,003
Motorized equipment	1,510,777	28,170	(79,298)		1,459,649
Lab and monitoring equipment	5,765,338	751,614	(16,879)		6,500,073
Furniture and other equipment	1,193,415	171,382			1,364,797
Total depreciable assets	22,193,400	1,244,723	(108,677)	629,892	23,959,338
Accumulated depreciation:					
Building and grounds	5,686,181	320,655			6,006,836
Leasehold improvements	2,675,780	2,391			2,678,171
Computers and network equipment	1,440,388	184,739	(11,875)		1,613,252
Motorized equipment	1,208,888	115,418	(75,333)		1,248,973
Lab and monitoring equipment	4,585,318	330,446	(16,035)		4,899,729
Furniture and other equipment	516,675	187,278			703,953
Total accumulated depreciation	16,113,230	1,140,927	(103,243)		17,150,914
Total depreciable assets, net	6,080,170	103,796	(5,434)		6,808,424
Total capital assets, net	\$ 11,273,003	\$ 2,245,380	\$ (5,434)	\$	\$ 13,512,949

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Depreciation expenses by program for capital assets for the year ended June 30, 2009 are as follows:

Primary Government:

Executive Office	\$ 43,301
Administrative services	149,254
Legal services	23,670
Public information and outreach	13,590
Compliance and enforcement	263,433
Engineering	94,954
Planning	85,639
Technical services	367,814
Information services	99,272

Total depreciation expense \$ 1,140,927

6. DEFERRED REVENUE

Under both the accrual and modified accrual basis of accounting, revenues are recognized only when earned. Thus, the government-wide statement of net assets and governmental funds defer revenue recognition for resources that have been received at year-end, but not yet earned. Assets recognized before the earning process is complete are offset by a corresponding liability as unearned revenues. Under the modified accrual basis of accounting, revenues are recognized when earned and susceptible to accrual. Revenues are considered susceptible to accrual if they are measurable and available to finance expenditures of the current period. Thus, governmental funds defer revenue recognition for revenues not considered available to liquidate liabilities of the current period.

At June 30, 2009, components of deferred and unearned revenues reported were as follows:

	Deferred Revenue		
	Unearned	Unavailable	Total
General Fund:			
Permits and licenses		\$ 508,204	\$ 508,204
Special Revenue Fund			
CARB - Lower Emission School Bus	\$ 385,970		385,970
BART	149,717		149,717
Carl Moyer Program	4,992,143		4,992,143
Sub-Total Special Revenue Fund	5,527,830		5,527,830
Total unearned and deferred revenue	<u>\$ 5,527,830</u>	<u>\$ 508,204</u>	<u>\$ 5,535,687</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

7. LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

A schedule of changes in general long-term debt for the year ended June 30, 2009 is shown below:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>	<u>Non Current</u>
Governmental Activities						
Compensated Absences	\$ 3,444,099	\$ 450,563	\$ (112,054)	\$ 3,782,608	\$ 123,068	\$ 3,659,540
OPEB		420,737		420,737		420,737
Total	<u>\$ 3,444,099</u>	<u>\$ 871,300</u>	<u>\$ (112,054)</u>	<u>\$ 4,203,345</u>	<u>\$ 123,068</u>	<u>\$ 4,080,277</u>

The long-term portion of compensated absences is liquidated by the General Fund and the long-term portion of OPEB is liquidated by both the General Fund and the Special Revenue Fund.

8. OPERATING LEASES

Commitments under non-cancelable operating lease agreements for air-monitoring stations and office equipment provide for minimum annual rental payments as follows:

Year ended June 30,

2010	\$ 266,930
2011	222,250
2012	212,268
2013	180,908
2014	178,429
2015 - 2019	<u>206,304</u>
	<u>\$ 1,267,089</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for the non-cancelable lease agreements for the year ended June 30, 2009 was \$316,942.

9. COUNTY APPORTIONMENT REVENUE

As a result of the passage of Proposition 13 in fiscal year 1979, the District no longer has the power to calculate property tax revenues due for each county. Instead, the District now receives remittances from the counties, which are calculated in accordance with Assembly Bill Number 8. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Property tax revenues are recognized by the District in the fiscal year they are assessed, provided that they become available as defined above.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxes to personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided that they are collected within the fiscal year or within sixty days after year-end.

County apportionment revenue recognized as of June 30, 2009 is as follows:

Alameda	\$ 3,920,683
Contra Costa	2,798,522
Marin	1,091,934
Napa	741,393
Santa Clara	5,613,986
San Francisco	2,966,193
San Mateo	2,811,162
Solano	588,320
Sonoma	<u>1,117,468</u>
Total county apportionment revenue	<u>\$ 21,649,661</u>

10. PENSION PLAN

All District employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined-benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the CalPERS Miscellaneous Employee "2% at 55" Plan (Plan). Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS, and the District must contribute the amounts specified by CalPERS. The District also contributes employees' contributions to CalPERS. The Plan's provisions and benefits in effect at June 30, 2009 are summarized as follows:

Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	55
Monthly benefits, as % of annual salary	1.426% - 2.418%
Required employee contribution rates	7%
Required employer contribution rates	9.721%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

CalPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. The required contributions and related rates for the past three years ended June 30 were as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 4,523,356	100%	0
6/30/2008	\$ 5,159,708	100%	0
6/30/2009	\$ 5,344,223	100%	0

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty-year period.

Audited annual financial statements and ten year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In June 2004, GASB issued Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*." This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other non-pension benefits. Annual other postemployment benefit (OPEB) cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. The District prospectively implemented the new reporting requirements as required for fiscal year 2008-09 financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Plan Description – The District sponsors a single-employer defined benefit healthcare plan administered by CalPERS. The District provides medical, dental, vision, and life insurance benefits to eligible retirees. Benefit provisions are established in accordance with the Employee Association Memorandum of Understanding (MOU) for represented employees and as adopted by Board Resolution for all other employees who retire from the District on or after attaining age 50 with at least 5 years of service.

Funding Policy – The District funds on a pay-as-you-go basis with additional discretionary funding payments as approved by the Board. The District paid health care and life insurance benefit contributions based on when insurance premium payments were made, which were \$1,291,263 for the year ended June 30, 2009. During the year ended June 30, 2009, one hundred and forty-four retirees participated in the health insurance plan, one hundred and twenty-four retirees participated in the dental plan, one hundred and one retirees participated in the vision plan, and one hundred and twenty-two retirees participated in the life insurance plan.

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Board adopted a resolution authorizing the District to pursue a participating agreement with California Public Employees' Retirement System (CalPERS) to administer and invest the District's OPEB trust through the California Employers' Retiree Benefit Trust (CERBT) fund.

The CERBT fund, which is an IRC Section 115 Trust, is set up for the purpose of (i) receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries, (ii) invest contributed amounts and income therein, and (iii) disburse contributed amounts and income therein, if any, to pay for costs of administration of the fund and to pay for health care costs or other postemployment benefits in accordance with the terms of the District's OPEB plan.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Annual OPEB Cost and Net OPEB Obligation – The ARC was determined as part of the January 1, 2008 actuarial valuation. The ARC rate was 16.8% of annual covered payroll. For the year ended June 30, 2009, the District's annual other postemployment benefit cost (expense) is \$5,112,000. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

Annual required contribution	\$ 5,112,000
Interest on net OPEB obligation	
Annual OPEB cost (expense)	5,112,000
Contributions made	(4,691,263)
Increase in net OPEB obligation	420,737
Net OPEB obligation-beginning of year	
Net OPEB obligation-end of year	\$ 420,737

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 5,112,000	92%	\$ 420,737

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2009 was as follows:

Actuarial accrued liability (AAL)	\$ 48,377,000
Actuarial value of plan assets	3,474,247
Unfunded actuarial accrued liability (UAAL)	\$ 44,902,753
Funded ratio (actuarial value of plan assets/AAL)	7.2%
Covered payroll (active plan members)	\$ 31,823,042
UAAL as a percentage of payroll	141.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Actuarial Methods and Assumptions -- Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), an annual medical cost trend rate of 4.5%, dental and vision trend rate of 3%, and an inflation assumption of 3%. The EAN cost method spreads plan costs for each participant from the entry date to the expected retirement date. Under the EAN cost method the plan's normal cost is developed as a level amount over the participant's working lifetime. The actuarial value of plan assets was \$3,474,247. The plans unfunded actuarial accrued liability is being amortized using the level percentage of pay method over 20 years.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a \$1,000 to \$5,000 deductible for general and special property liability with limits of \$10 million and \$350 million, respectively. The District has a \$300,000 deductible for workers' compensation with a \$1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages in any of the past three years.

As of June 30, 2009, the District had no material claims outstanding for general liability or for workers' compensation cases.

13. COMMITMENTS AND CONTINGENCIES

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the District's grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the District expects any such amounts to be immaterial.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

14. RESTATEMENT OF FUND BALANCE / NET ASSETS

As of July 1, 2008, the District recorded a restatement to decrease its general fund beginning fund balance and increase its deferred revenue balance in the amount of \$520,745. The effect of the restatement reduced June 30, 2008 revenues in the amount of \$520,745 and the June 30, 2009 revenues in the amount of \$508,204. The restatement was a correction to defer receivables that had not been collected within the District's sixty-day availability period.

In addition, the District recorded a restatement to reduce the fiduciary fund net assets and increase the general fund's fund balance by \$2,724,190. The effect of the restatement reduced the fiduciary fund and increased the general fund's investment income by \$143,020 and \$124,826 for the years ended June 30, 2009 and 2008, respectively. This restatement was a correction to remove the prior year presented OPEB Trust fund. Upon further analysis by the District, the fund did not meet the definition of a fiduciary fund as defined by GASB which includes performing the investment function and having significant administrative involvement over the funds. This restatement increased the governmental-activities net assets and restricted cash at July 1, 2008 by \$2,724,190.

Further, based on an analysis of the District's revenue in accordance with GASB-33, the District recorded a restatement to increase the general fund's and special revenue fund's revenues and fund balances by \$903,106 and \$81,033,409, respectively. In the prior year, the District had treated these revenues as deferred revenue. The general fund's and special revenue fund's revenues were increased by \$4,443,025 and \$13,745,078, respectively, for the year ended June 30, 2009 as a result of the restatement. This restatement increased the governmental-activities net assets and revenues and decreased the unearned revenue at July 1, 2008 by \$81,936,515.

15. SUBSEQUENT EVENT

On July 28, 2009, the California legislature and Governor Arnold Schwarzenegger passed the state budget and approved a provision allowing the state to borrow 8% of the amount of property tax revenue apportioned to cities, counties, and special districts. Under the provision, the State will be required to repay those obligations by June 13, 2013. The provision also created an option for California local public agencies to relieve the burden of loaning the State property tax revenue. The provision, called Proposition 1A Securitization, authorizes the California Statewide Communities Development Authority ("California Communities") to purchase the receivable due to local agencies from the state. In a simultaneous transaction, California Communities will issue bonds and remit the cash proceeds to the participating local public agencies. To offset the shortages related to the borrowing of property taxes, the District has elected to participate in the Proposition 1A Securitization program. The securitization transaction closed on November 19, 2009, and the District received the first installment payment of \$859,880 on January 15, 2010. The second installment payment is due on May 15, 2010.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

16. EXTRAORDINARY ITEM

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) declared bankruptcy. This bankruptcy had a direct, negative impact on the County Pool's investments in an amount of approximately \$155 million as of September 30, 2008. After extensive consultation with the County's financial advisors and legal counsel, the County Treasurer decided to retain the Lehman securities, but mark their value down to zero and carry the securities as nonperforming assets. For the quarter ended September 30, 2008, the County charged all pool participants' accounts a one-time expense based on their average daily cash balances to reflect the reduction in value. The District's portion of this charge resulted in a loss on investments of \$1,720,955.

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2009

PENSION PLAN

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Actuarial Over (Under) Accrued Liability	Funded Ratio (a/b)	Covered Payroll (c)	Actuarial Asset, Over (Under) Liability as Percentage of Covered Payroll ((b-a)/c)
6/30/2006	\$ 133,258,350	\$ 144,155,886	\$ (10,897,536)	92.4%	\$ 26,512,786	-41.1%
6/30/2007	145,957,078	154,268,467	(8,311,389)	94.6%	27,883,108	-29.8%
6/30/2008	157,409,271	166,446,003	(9,036,732)	94.6%	29,695,491	-30.4%

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2009	\$ 3,474,247	\$ 48,377,000	\$ 44,902,753	7.2%	\$ 31,823,042	141.1%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Permit fees	\$ 22,563,268	\$ 22,563,268	\$ 22,069,066	\$ (494,202)
Title V permit fees	2,534,000	2,534,000	2,538,461	4,461
Asbestos fees	1,928,000	1,928,000	1,678,665	(249,335)
Penalties and variance fees	2,500,000	2,500,000	2,544,207	44,207
Hearing board fees	28,000	28,000	17,960	(10,040)
State subvention	1,722,863	1,722,863	1,713,271	(9,592)
AB 2588 income	550,000	550,000	612,995	62,995
Miscellaneous	400,000	400,000	103,431	(296,569)
Federal grant -EPA	1,776,075	2,150,472	2,002,303	(148,169)
Federal grant - DHS	1,618,855	1,618,855	903,796	(715,059)
CMAQ Spare The Air	1,964,508	1,964,508	924,261	(1,040,247)
Other grants	678,440	678,440	5,003,522	4,325,082
Portable equipment registration program (PERP)			606,420	606,420
Interest	1,427,424	1,427,424	832,267	(595,157)
County apportionment	20,632,123	20,632,123	21,649,661	1,017,538
Redevelopment			16,962	16,962
Total revenues	<u>60,323,556</u>	<u>60,697,953</u>	<u>63,217,248</u>	<u>2,519,295</u>
EXPENDITURES				
Executive office	7,116,028	7,398,356	6,361,392	1,036,964
Finance and administration	6,840,241	8,444,100	5,063,754	3,380,346
Information systems	4,802,184	9,560,797	4,316,794	5,244,003
Legal services	2,295,253	2,327,878	2,364,431	(36,553)
Outreach and incentives	4,762,305	5,263,456	4,623,962	639,494
Compliance and enforcement	11,562,094	11,799,985	11,898,215	(98,230)
Engineering	8,881,473	8,991,737	10,556,445	(1,564,708)
Planning and research	6,680,335	10,655,788	6,773,172	3,882,616
Technical services	<u>9,115,617</u>	<u>11,192,153</u>	<u>8,674,707</u>	<u>2,517,446</u>
Total current expenditures	62,055,530	75,634,250	60,632,872	15,001,378
Capital outlay			3,386,307	(3,386,307)
Total expenditures	<u>62,055,530</u>	<u>75,634,250</u>	<u>64,019,179</u>	<u>11,615,071</u>
DEFICIENCY OF REVENUES				
OVER EXPENDITURES	<u>(1,731,974)</u>	<u>(14,936,297)</u>	<u>(801,931)</u>	<u>14,134,366</u>
OTHER FINANCING SOURCES				
Transfers in			168,655	168,655
Total other financing sources			168,655	168,655
EXTRAORDINARY ITEM				
Loss on Lehman Brothers investment			(1,720,955)	(1,720,955)
NET CHANGE IN FUND BALANCE	<u>\$ (1,731,974)</u>	<u>\$ (14,936,297)</u>	<u>(2,354,231)</u>	<u>\$ 14,303,021</u>
BEGINNING FUND BALANCE, AS RESTATED			37,036,465	
ENDING FUND BALANCE			<u>\$ 34,682,234</u>	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
TFCA/MSIF DMV fee	\$ 11,983,282	\$ 67,877,257	\$ 26,153,568	\$ (41,723,689)
Carl Moyer Program		22,046,416	13,707,306	(8,339,110)
AB 434/923 others			227,704	227,704
Other grants			675,797	675,797
Port of Oakland Truck Program			10,000,002	10,000,002
Total revenues	<u>11,983,282</u>	<u>89,923,673</u>	<u>50,764,377</u>	<u>(39,159,296)</u>
EXPENDITURES				
TFCA Programs:				
Program distribution		71,388,502	32,101,522	39,286,980
Smoking vehicle	809,403	823,609	322,131	501,478
Intermittent control	1,222,565	1,222,566	262,673	959,893
TFCA administration	1,098,051	1,126,937	1,208,271	(81,334)
Vehicle buy-back	7,344,388	7,616,239	1,554,837	6,061,402
Mobile source incentive	545,820	545,820	539,423	6,397
CGM Programs:				
Grant administration			722,661	(722,661)
Port of Oakland Truck Program			139,126	(139,126)
Total expenditures	<u>11,020,227</u>	<u>82,723,673</u>	<u>36,850,644</u>	<u>45,873,029</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>963,055</u>	<u>7,200,000</u>	<u>13,913,733</u>	<u>6,713,733</u>
OTHER FINANCING USES				
Transfers out			(168,655)	(168,655)
Total other financing uses			<u>(168,655)</u>	<u>(168,655)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 963,055</u>	<u>\$ 7,200,000</u>	<u>13,745,078</u>	<u>\$ 6,545,078</u>
BEGINNING FUND BALANCE, AS RESTATED			<u>81,033,409</u>	
ENDING FUND BALANCE			<u>\$ 94,778,487</u>	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2009

Budgetary Principles

Through the budget process, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources, and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.
- b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP). Annual appropriated budgets are adopted for the General and Special Revenue funds.
- c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

Encumbrances

Encumbrances represent commitments related to goods or services that were unspent at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the District's governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM SCHEDULE OF EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2009

Programs	Salaries and Benefits	Services and Supplies	Program Distribution	Total
Program distribution			\$ 32,101,522	\$ 32,101,522
Smoking vehicle	\$ 287,444	\$ 34,687		322,131
Intermittent control	109,759	152,914		262,673
TFCA administration	1,051,233	157,038		1,208,271
Vehicle buy back	24,198	1,530,639		1,554,837
Mobile source incentive	525,101	14,322		539,423
Total expenditures	<u>\$ 1,997,735</u>	<u>\$ 1,889,600</u>	<u>\$ 32,101,522</u>	<u>\$ 35,988,857</u>